



**Investment Office**

P.O. Box 2749

Sacramento, CA 95812-2749

Telecommunications Device for the Deaf - (916) 795-3240

(916) 795-3400

May 15, 2006

**AGENDA ITEM 5b**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Selection of International Developed and Emerging Market Equity Managers for Spring-Fed Pools
- II. PROGRAM:** Global Equity
- III. RECOMMENDATION:**
- (1) Approve the following managers for inclusion in the international developed market equity Spring-Fed Pool:
    - Axa Rosenberg Investment Management
    - Batterymarch Financial Management
    - Fidelity Management Trust Company
    - Goldman Sachs Asset Management
    - PanAgora Asset Management
    - State Street Global Advisors
    - The Boston Company
  - (2) Approve the following managers for inclusion in the emerging market equity Spring-Fed Pool:
    - Batterymarch Financial Management
    - Lazard Asset Management
    - Pictet Asset Management
    - Robeco Institutional Asset Management
  - (3) Approve the use of annual review contracts for the international developed and emerging market equity Spring-Fed Pools.
- Wilshire Associate's opinion letter is shown in Attachment 1. Wilshire's conflict of interest disclosure is shown in Attachment 2.

#### **IV. ANALYSIS:**

##### **Background**

At its August 15, 2005 meeting, the Investment Committee approved the issuance of a Request for Proposal (RFP) with a Spring-Fed Pool feature for international developed and emerging market equity managers. The RFP specified that the emerging market managers must demonstrate a well documented process for considering CalPERS' geopolitical and investibility factors and requires annual reporting of these factors to the CalPERS Investment Committee.

##### **Manager Search Process**

The RFP, which provides for optional Investment Committee interviews of finalists, was issued on October 28, 2005. Proposals were sent to firms identified by staff and Wilshire Associates. In addition, the RFP was advertised in *Pensions and Investments*.

CalPERS received 51 proposals for international investing, of which all but three met the minimum qualifications listed in the RFP. All of the 48 qualifying proposals, 28 developed market and 20 emerging market, were read and scored by staff according to the criteria listed in the RFP. The scoring categories included:

- Organization / Investment Professionals
- Investment Philosophy and Process
- Trading Process and Systems
- Performance
- Composite / Product Information

Seventeen firms, representing ten developed market and seven emerging market proposals, were invited to interview with staff at CalPERS' offices during the period of April 3<sup>rd</sup> through April 7, 2006. Roz Hewsenian from Wilshire Associates was in attendance at the interviews. The interviews were scored by staff in accordance with the criteria listed in the RFP. The scoring categories included:

- Business Strategy
- Organization / Investment Professionals
- Investment Philosophy and Process
- Trading Process and Systems
- Risk Management

Fee proposal scores were combined with the Technical Proposal and Staff Interview scores to determine the firms to be recommended to the Investment Committee.

Based on the results of the RFP process, staff and Wilshire recommend seven products for inclusion in the international developed market Spring-Fed Pool as shown below and four products for inclusion in the emerging market Spring-Fed Pool for investment management services as shown below.

**Developed Market Recommended Managers**

1. Axa Rosenberg Investment Management
2. Batterymarch Financial Management
3. Fidelity Management Trust Company
4. Goldman Sachs Asset Management
5. PanAgora Asset Management
6. State Street Global Advisors
7. The Boston Company

**Emerging Market Recommended Managers**

1. Batterymarch Financial Management
2. Lazard Asset Management
3. Pictet Asset Management
4. Robeco Institutional Asset Management

**Annual Review Contracts**

Staff recommends the use of annual review contracts, which provide for an undefined duration, for this RFP. This would be consistent with the contracting procedure used for all other investment management contracts. This recommendation is necessary to fulfill CalPERS' fiduciary duties to its members because the use of annual review contracts is a more efficient use of CalPERS staff and Board time and other resources. The award of contracts without a defined duration is allowed under Board Resolution 92-04B-4.

**Funding**

Funding of managers for the developed market investment management Spring-Fed Pool will come primarily from passively managed public equity assets or from existing active international equity managers. Funding for the emerging market investment management Spring-Fed Pool will come from cash flows or from existing active emerging market managers, with an emphasis on avoiding transaction costs as these market have high trading costs.

**V. STRATEGIC PLAN:**

This agenda item advances CalPERS Strategic Plan, Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

**VI. RESULTS/COSTS:**

Funding to the new managers will expand the Global Equity opportunity set and is expected to enhance risk-adjusted returns in this asset class.

Prepared by:

---

Geraldine Jimenez  
Investment Officer III

---

Mary C. Cottrill  
Senior Portfolio Manager

---

Christianna Wood  
Senior Investment Officer

---

Anne Stausboll  
Interim Chief Investment Officer